The Gentrification of Cadman Towers

***Gentrification** is the process of changing the character of a neighborhood through the influx of more affluent residents… Gentrification often shifts a neighborhood's racial or ethnic composition and average household income by developing new, more expensive housing… —Wikipedia*

The semi-privatization plan currently under consideration at Cadman Towers — the '2 to 11' idea to convert from a not-for-profit Mitchell-Lama (ML) to a for-limited-profit Housing Development Fund Corporation (HDFC) — is, essentially, **a gentrification plan**. Most of the people on our waiting list who are currently eligible to buy at Cadman as a Mitchell-Lama will no longer have enough income to purchase at Cadman as an HDFC.

How did this happen?

'2 to 11' was initially proposed as a 'compromise' between privatization and the not-for-profit ML model, to allow shareholders to get "some" profit. Although privatization was defeated at Cadman and a compromise was therefore unnecessary, the Cadman Board was allowed to continue to pursue this conversion.

Proponents of '2 to 11' now claim that the goal was always to help fund repairs. They now also deemphasize that departing shareholders (or their heirs) leave with a profit.

After enjoying years of government subsidies, this profit-taking has multiple negative consequences. First and foremost is that Cadman would no longer be affordable to the very people for whom it was intended, those that have always populated our community — the moderate-income working New Yorkers. Second, it takes money away from the development and our needs by giving an undeserved profit to departing shareholders (or their heirs). Finally, it allows HPD/government to pass the buck on their responsibility to preserve affordable housing — making it the responsibility of individual developments to come up with an affordability plan instead of finding a global solution to the housing crisis. To add insult to injury, the amount of money raised for repairs by this plan is likely to be far less than claimed in the draft proxy statement.

Problems in Getting a Mortgage

To understand the gentrification data it is first necessary to examine the mortgage problems faced by purchasers of HDFCs.

Let's use the example of a family of three moving into a two-bedroom apartment — say a mom and two kids or two parents and a child. **Because traditional banks do not give mortgages to HDFCs,** to other limited-equity co-ops like Penn South, or to Mitchell-Lamas, our family of three will have to take a 15-year mortgage at about 5% interest from either a credit union or the lending program at the Urban Homesteading Assistance Board (UHAB)* that was established to deal with the HDFC mortgage problem. Only 15-year loans are offered by these lenders, not the 30-year loans that would be available from a traditional bank.

UHAB loans *could* be available to purchasers at Cadman right now as a Mitchell-Lama, but the board, although informed of this option, has declined to arrange to make these available to incoming shareholders.

*The UHAB loans are now at around a 5% interest rate but the rates are increasing. They require 20% down for Mitchell-Lama loans and 10% down for HDFC loans. (Information on UHAB loans: https://www.uhab.org/our-work/homeownership/get-a-loan)

Gentrification by the Numbers

Let's look at the numbers to explore the myth that an HDFC Cadman will still be 'affordable.' Here's a chart that shows the numbers for a sale of a two-bedroom at Cadman to our three-person family example. As a Mitchell-Lama the apartment would cost about $60,000 and as an HDFC it would be about $236,000.

	Sales price	Down payment at 20% for ML and 10% for HDFC	Mortgage principal	Monthly mortgage costs	Monthly costs of maintenance and utilities	Total monthly costs	Minimum annual income needed at 30% of gross income
ML Cadman	$60,000	$12,000	$48,000	$380	$1,350	$1,730	$69,200
HDFC Cadman	$236,000	$23,600	$212,400	$1,680	$1,350	$3,300	$121,200

Assumptions:

1) Both ML and HDFC buyers will take a mortgage from UHAB at 20% down for Mitchell-Lama and 10% down for HDFC with 5% interest for 15 years.
2) Although flawed, we use the calculation that affordable housing is anything that is below 30% of gross income.

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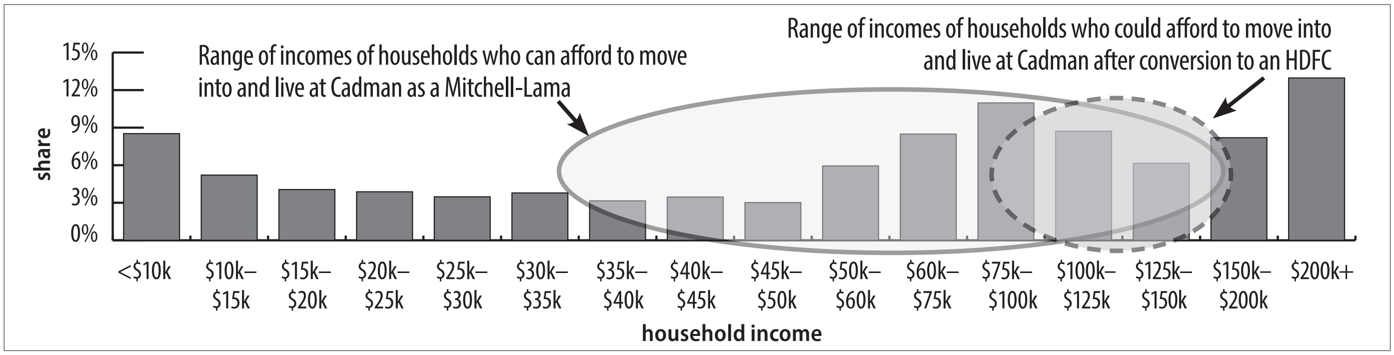
Distribution of household income in NYC / ML vs HDFC range of affordability



Source: Household income data from American Community Survey 2020 (https://data.census.gov/cedsci/table?q=household%20income&g=1600000US3651000&d=ACS%205-Year%20Estimates%20Subject%20Tables&tid=ACSST5Y2020.S1901); Range of incomes data derived from a comparison of prices of Cadman Towers ML versus projected sales prices at Cadman Towers HDFC, with an affordability cap of 125% of AMI for ML, and 130% of AMI for HDFC, using the standard for affordability of under 30% of gross income.

Cutting out lower & moderate income households

While the draft Proxy Statement was deficient and did not give us all of the numbers that we need for a full analysis, what we see for all size households and apartments is that there is a MUCH WIDER range of people who are able to afford at a Mitchell-Lama Cadman — those with incomes from about $34,000 to about $161,000. At an HDFC Cadman the range is from about $81,000 to about $168,000. *Of course, those with incomes above these ranges could afford either Cadman, but the ML program caps income at 125% of Area Median Income (AMI)** and an HDFC Cadman would be capped at 130% of AMI.*

Everyone of more moderate income is cut out when Cadman gentrifies. In addition, what we would see at an HDFC Cadman is what is already a problem with other HDFC buildings — the apartments will mainly sell to *'asset wealthy, but income moderate'* New Yorkers. The article, *Bargains with a But,* in the NY Times (2014) explains this phenomenon *(see top sidebar).*

And, this more recent article from Bloomberg *(see bottom sidebar)* about HDFCs indicates that, as an HDFC, Cadman would be gentrified when only 'trust fund kids' and wealthy retirees could meet the dual requirements of having income under 130% of AMI ***and*** being able to afford the monthly costs.

Being the first to try '2 to 11' is likely to bring unintended negative consequences. For example, other HDFCs do not use AMI percentages in the way that is proposed for Cadman. With this unusual formulation, which we'll discuss more in a future flyer, we may see that buyers at an HDFC Cadman may actually lose money on their investment, when, after a few years, apartment prices may have to drop to stay under the 130% of AMI affordability limit.

When the deficient draft Proxy Statement is finally corrected and we see the way that this plan gentrifies Cadman, but does not solve our problems, we believe we'll see that staying in Mitchell-Lama is still our best option.

**For a better understanding of Area Median Income (AMI) and its use in housing programs see: https://www1.nyc.gov/site/hpd/services-and-information/do-you-qualify.page

from *Bargains with a But, NYTimes, 2014*

"...In this extremely tight real estate market, when practically any listing is snapped up instantly, why are some of the city's most affordable apartments struggling to find buyers? It's because they belong to a small and quirky breed of co-op that requires buyers to meet income caps, yet have significant assets on hand — a tall order for most.

'It's a Catch-22, since they can't earn more than a certain amount, but cannot qualify for financing at that income unless they make a massive down payment' "

http://www.nytimes.com/2014/06/29/realestate/affordable-new-york-apartments-with-a-catch.html?emc=eta

from New York's Real Estate Tax Breaks Are Now a Rich-Kid Loophole, Bloomberg, 2021

"...In short, because of inadequate rules, poor design, and decades of lax oversight, these low-income tax subsidies are being scooped up by the well-to-do. 'They're just gaming the system,' says Penny Gurstein, an expert on affordable housing who directs the Housing Research Collaborative at the University of British Columbia. 'This is now just being used as a playground for the rich.'

... If the system is left unchanged, it isn't hard to envision a future in which gentrification fans out across more and more neighborhoods and their HDFC cooperatives. Hardly a surprising outcome in New York real estate, where the logic of the market wins more often than not. At least there's a consolation prize: tidy nest eggs for exiting owners, as their homes and city are cleared for the affluent."

https://www.bloomberg.com/graphics/2021-nyc-taxes-hdfc-coops/